VANCOUVER

HOUSING MARKET OUTLOOK

Canada Mortgage and Housing Corporation

Continued Strength in New Home Construction into 2005

Fall 2004

Following the banner market seen in 2003 and in the spring and early summer of this year, Vancouver housing markets are poised for more moderate, sustained growth in the coming years. Builders are working flat out to satisfy housing demand, which continues to be buoyed by low mortgage rates as well as improving economic conditions. Although mortgage rates have begun creeping up, they are still low by historic standards, and buyers are also being motivated by the prospect of further rate hikes. However, with the cost of financing edging up, housing demand has slowed from its previous frenzied pace. We are beginning to see a return to growth that is based more on strong market fundamentals: employment gains, high consumer confidence and positive migration flows building the population base.

The Vancouver CMA saw continued growth in new home construction during the first nine months of 2004. Housing starts during this period totalled 15,199 units, a 33 per cent increase over the same period last year.

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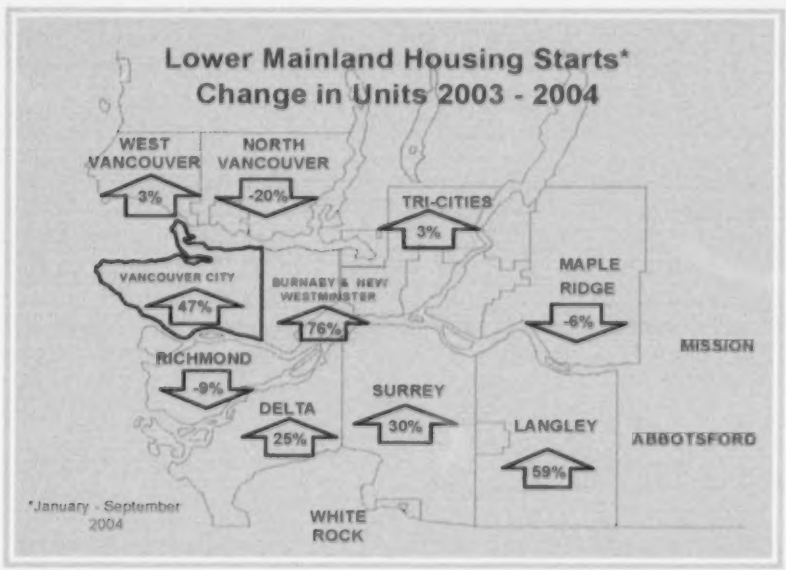

CMHC SCHL

By year-end, total housing starts are forecast to hit 19,500 units, up 25 per cent compared to 2003. This will be the second year in a row since 1997 that total starts have exceeded the 15-year average of 15,304 units. Looking to 2005, total starts are projected to rise a further 3 per cent to 20,000 units.

Multiple unit construction continues to drive growth in new construction, and is expected to account for more than 70 per cent of starts in both 2004 and 2005. This figure is up dramatically from 1985, when just 44 per cent of starts were multiples. This trend is in response to rapidly rising house prices, increasing demand for affordable housing options, and a shrinking land supply. During the first 9 months of 2004, almost one-third of starts in 2004 were single detached homes, while 5 per cent were semi-detached units. Apartment condominium construction accounted for the largest share of new construction activity, with 47 per cent of recorded starts, while townhouse construction comprised 16 per cent of new homes started. Just 3 per cent of all units started during 2004 were destined for the rental market.

The municipalities with the largest share of housing construction activity during the first nine months of 2004 were Vancouver City (29%), Surrey (22%), Burnaby (13%), Richmond (7%), and Langley DM (7%). In both Vancouver City and Burnaby, more than 70 per cent of starts were apartment condominiums, particularly high-rise units. In Surrey and Langley, builders have been concentrating on single detached homes, which comprised 50-60 per cent of the activity, and townhouse units, accounting for another 30-40 per cent of new builds. In Richmond, over 40 per cent of housing starts were apartment units and another 30 per cent have been detached single family homes.

Investors and first-time buyers continue to be key drivers in the new home market, buying up existing stocks of apartment condominiums in the urban core and in municipalities nearby. These groups are attracted by the affordability, location and lifestyle offered by condo living. First-time buyers in suburban markets have access to a larger stock of affordable town homes to complement the apartment condominium option. Single detached homes and higher-end townhouses are a viable option for move-up and move-down buyers in outlying communities. The majority of those 'moving up' in the urban core, especially in Vancouver proper, opt for larger, or more luxurious apartment condominiums.

During the first 9 months of 2004, inventories of all new product types were at record low levels across the Vancouver CMA. At the end of September, there were just 844 units complete and unoccupied across the CMA. This is well below the 15-year monthly average of 3,162 units. As a result, builders have been ramping up production to satisfy demand. At September month-end, the total number of units under construction stood at 18,108, up 137 per cent from five years ago. Results in the apartment condominium market have been even more dramatic, with the number of units under construction jumping 350 per cent compared to September 2000. However, 70 to 80 per cent of these units have been pre-sold before comple-

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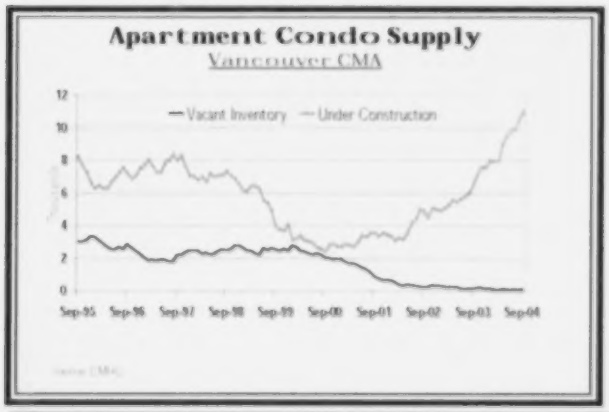

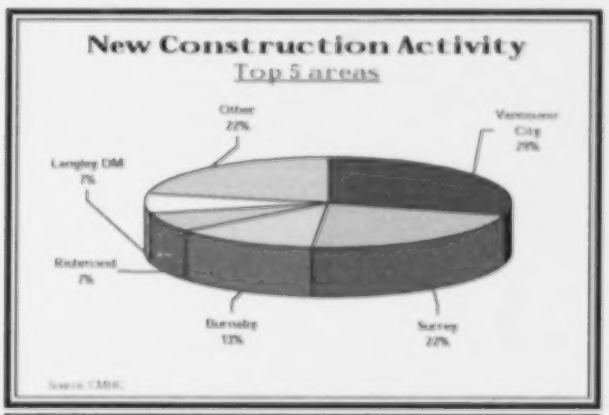

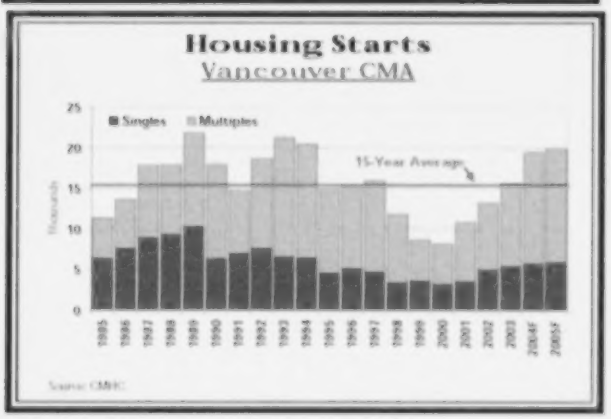

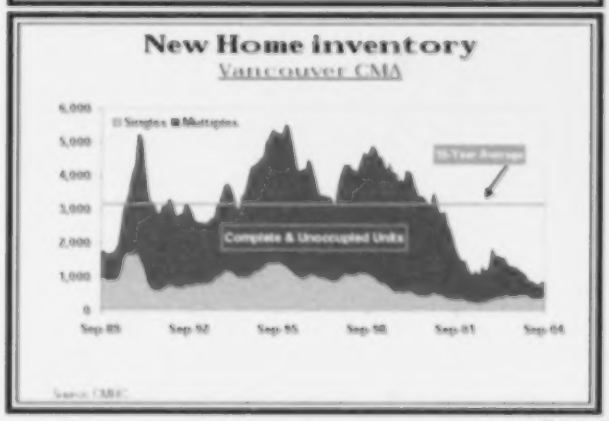

Resale Market

MLS sales in Greater Vancouver have continued their upward trajectory, and it appears that 2004 will be another one for the record books. MLS sales of detached, attached and apartment units reached 27,418 transactions for the first nine months of 2004, a 3 per cent increase over the same period last year. Although total year-to-date sales in 2004 have exceeded 2003 levels, since March of this year, monthly sales have dropped 35 per cent, and since June, sales have been below 2003 levels. The total number of MLS sales is projected to reach 37,800 transactions by year-end. Apartment condominium sales are expected to be up 10 per cent, while sales of single detached homes will decrease by 11 per cent, compared to a year earlier. MLS sales in 2005 will dip slightly to 37,200 units.

The inventory of existing homes for sale across Greater Vancouver has been on the rise since the beginning of 2004, signalling a return to more balanced market conditions. Since January 2004, active listings have increased 96 per cent to 13,452 units. After more than a year of low inventory levels, the number of active listings is now approaching the 10-year average of 13,970. With the number of MLS sales on the decline and the inventory of resale homes on the market on the rise, the sales to active listings ratio has fallen steadily since March of this year. Although most areas are still categorized as sellers' markets, the ratio is becoming more balanced. This will help to mitigate upward price pressure in the coming year.

The combination of low mortgage rates, high consumer confidence and low resale inventories has driven the price of a single-family resale home in Greater Vancouver up 48 per cent in the last five years. Home prices in Vancouver remain the highest in the country. Year-to-date, the average price of a single detached home was up 19 per cent over the same period last year, to $523,366. Townhouse prices rose 17 per cent to $311,487, while the average price of an apartment condominium increased 19 per cent to $250,621.

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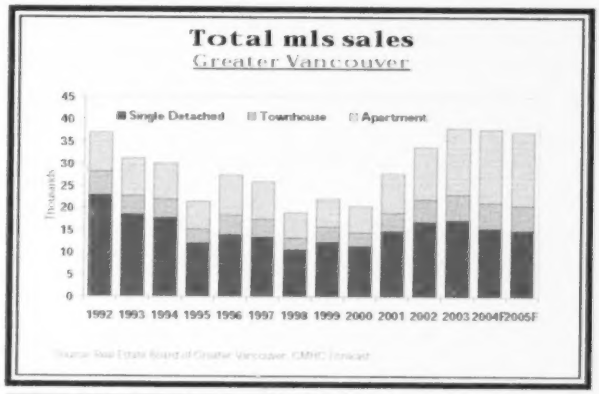

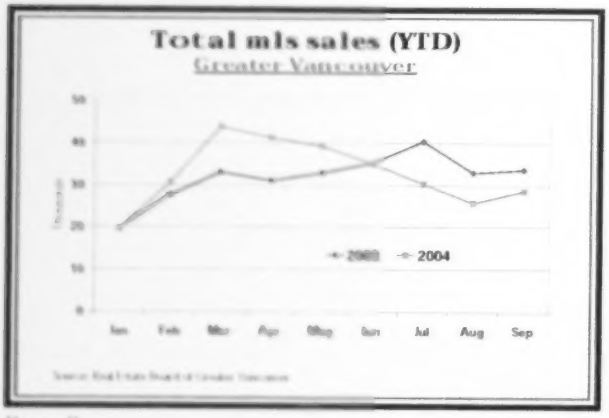

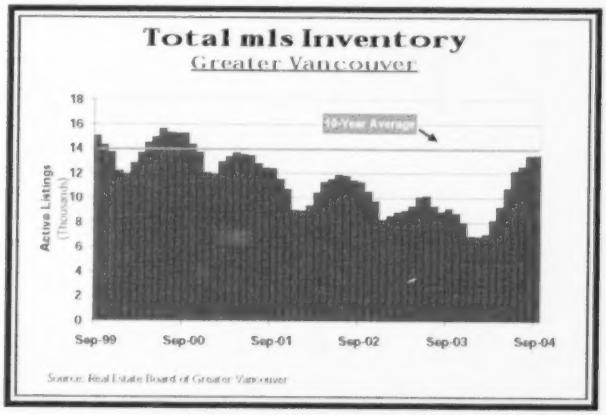

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By the end of 2004, the average resale price of a single detached home in Greater Vancouver is forecast to be up 17 per cent over 2003. The average price of both townhouse and apartment condominiums is slated to show a 15 per cent increase by year-end. As mortgage rates edge up and new construction activity begins to catch up with demand, price gains will be more moderate in 2005. Look for a 6 per cent increase in single detached prices, to $555,000; a 5 per cent hike to $325,000 for townhouse condominium units; and a 5 per cent increase, to $260,000, for apartment units. ■

Top 10 areas of Price Increase
Single detached

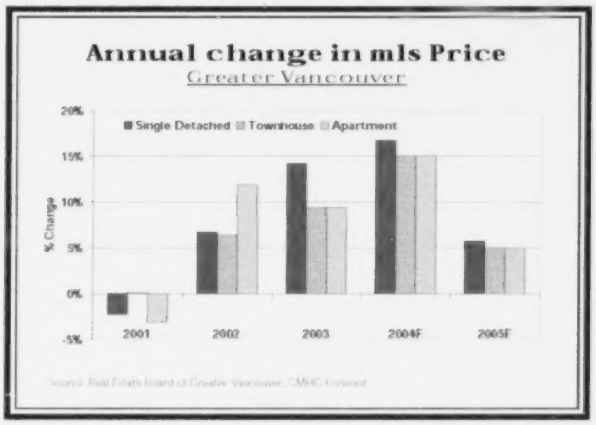
	% Change (Sept 03 - Sept 04)	Average Price (3 Mo Avg)
West Vancouver	39%	$1,159,375
White Rock	27%	$581,480
Maple Ridge	23%	$354,276
Langley	22%	$359,370
Port Moody	22%	$509,623
Richmond	19%	$489,779
Surrey	19%	$355,952
Port Coquitlam	18%	$372,205
Vancouver East	16%	$435,089
North Vancouver	14%	$628,432
Greater Vancouver	**14%**	**$529,326**

Source: Real Estate Board of Greater Vancouver

Top 10 areas of Price Increase
Apartment condominium

	% Change (Sept 03 - Sept 04)	Average Price (3 Mo Avg)
Vancouver West	37%	$367,907
Langley	29%	$147,375
Port Coquitlam	27%	$129,965
Port Moody	26%	$192,033
West Vancouver	20%	$601,044
Coquitlam	19%	$167,501
White Rock	18%	$218,959
Burnaby	17%	$216,207
Maple Ridge	15%	$136,276
Surrey	13%	$117,421
Greater Vancouver	**21%**	**$260,756**

Source: Real Estate Board of Greater Vancouver

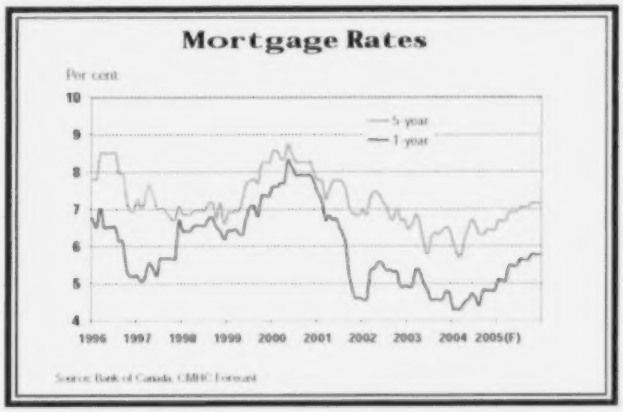


Mortgage Rate Forecast

Since the end of January of this year, we have seen the posted rate on a 5-year fixed mortgage rise by about 35 basis points to 6.40 per cent. During this period posted rates fluctuated by up to 100 basis points, with a low in March of 5.7 per cent, and the high in June of 6.7 per cent. The overall rise in mortgage rates reflects the rise in bond yields in response to expectations of tightening monetary policy in both Canada and the US. But inflation in Canada remains low, so the tightening cycle will be a gradual one. Rates will remain relatively flat or edge up marginally during the remainder of 2004. Further increases of 50-100 basis points are expected in 2005, but rates will remain low by historical standards. The one, three and five year mortgage rates will increase to the 4.50-5.00, 5.50-6.25 and 6.25-7.25 per cent range, respectively.

Low mortgage rates and steadily rising prices have made home ownership an increasingly attractive investment vehicle for many consumers. Meanwhile, the spread between longer-term mortgage rates and Government of Canada bond yields shrank in 2003, indicating that mortgages have become more competitive as an investment. Though mortgage rates are expected to rise in the coming year, rates should remain sufficiently low to support investment in the housing market.

While housing market growth between 2001 and early 2003 was driven primarily by low mortgage rates, since then, we have begun to see improving economic conditions, positive net migration and strong consumer confidence taking a more causal role. Mortgage rates, which are still low by historic standards, remain a key driver of housing demand, but are not as dominant a factor as in the recent past. With mortgage rates on the rise, activity in the housing market is slowing from the frenzied pace set earlier this year. Growth will continue into 2005, but at a slower pace than in the past two years. ■



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tion in many areas, making the actual available supply in the coming months much lower.

Low inventory levels, strong demand, and rising building and land costs have pushed new home prices up in most areas of the CMA. Year-to-date, the average price of a new single detached home in the Vancouver CMA was up 9 per cent over 2003, reaching $546,420. The average price of a townhouse increased 11 per cent to $291,973, while the average price of an apartment condominium jumped 24 per cent to $301,209. Price gains in 2005 are projected to be more moderate as mortgage rates rise and housing markets return to more balanced conditions. In 2005, look for single detached homes priced at $575,000, townhouse units at $310,000 and new apartment condominiums at $325,000.

Sales of new apartment condominium units in 2004 were concentrated more in the higher end price ranges, compared to 2003. Whereas in 2003, 30 per cent of sales were in the lowest price range ($100K-180K), in 2004, this figure dropped to 13 per cent. The wave of younger first-time buyers moving from rental units to home ownership has crested. However, continuing strength (over 40 per cent of sales) in the lower-mid price range ($180K-280K) suggests that older first-time buyers and investors remain very active in the market. In 2004, there was a larger proportion of sales in the mid to upper price ranges ($280-380K, $380K-500K, & $500K+), compared to 2003. These sales can be attributed to move-up and move-down buyers in the market.

Year-to-date, new purpose-built rental construction in the Vancouver CMA was at its lowest level since 1998, with just 604 units started. Rising land and development costs along with increasing rental vacancies, caused by first-time buyers switching to home ownership, have shifted the focus away from rental construction to condominium construction. The average apartment vacancy rate increased from 1.4 per cent in 2002 to 2 per cent in 2003. However, in the urban core and areas near the core, 30-50 per cent of apartment condominiums are owned by investors and rented out, adding significant stock to the rental market. This is also true of secondary suites, which have recently become legal in many municipalities, and legal or not, have been a reality for many years. ■

Economic Update

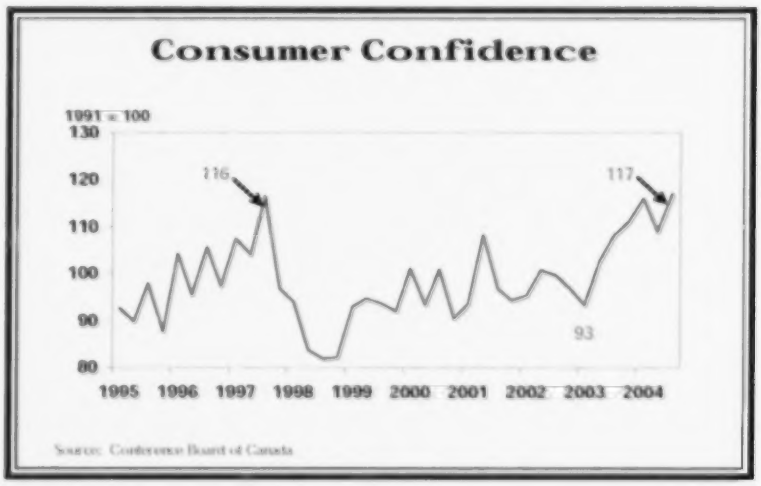
An expanding U.S. economy, with 4 per cent GDP growth this year, will continue to support economic growth in Canada in the near term. GDP growth in British Columbia is expected to reach 3.0 per cent in 2004 and 3.3 per cent in 2005. This is in line with the national forecast of 3.0 per cent expansion in 2004, and 3.4 per cent in 2005. Relatively low interest rates, increased demand for BC exports, and labour market strength are driving growth in BC.

Solid employment gains are contributing to high levels of consumer confidence. Across the province, employment is set to expand by 2.2 per cent in 2004, and a further 2.0 per cent in 2005. BC's unemployment rate will drop to 7.6 per cent in 2004, and 7.5 per cent in 2005. By the end of September of this year, an additional 30,000 full-time jobs had been created in Vancouver, compared to the same period in 2003. Disposable income is projected to increase by 3.5 per cent in 2004, and 4.3 per cent in 2005. As a result of these improving labour market conditions, consumer confidence has spiked past the previous high, reached in 1997. In the longer-term, employment will be bolstered by investments in infrastructure for the 2010 Olympics.

The population of the Greater Vancouver area is set to grow by 1 per cent, or just over 30,000 people, in both 2004 and 2005. Positive international net migration will account for most of this growth, but inter-provincial migration figures have shown the most improvement since 2003. Net international migration to the province is slated to reach 30,500 in 2004 and 32,000 in 2005. BC's net inter-provincial figure for the first quarter of 2004 was up nearly 10 per cent over the first quarter of 2003, and is forecast to remain positive into 2005.

Employment gains, low interest rates and strong levels of confidence are driving consumer spending and residential investment, which have been key to the ongoing economic expansion in BC. Resale markets have seen record levels of activity in 2004. By year-end, the province is forecast to log 98,000 MLS sales, a 5 per cent increase over 2003. MLS sales will dampen in 2005 as mortgage rates rise, contributing to a 5 per cent decline in activity. However, resales will remain strong by historic standards. New home construction growth in BC is leading the country. Total housing starts are projected to be up 21 per cent in 2004, for a total of 31,700 units. New home construction will expand a further 2 per cent in 2005.

The combination of low interest rates, employment growth and high consumer confidence, continued to fuel growth in the BC economy and housing markets in 2004. Mortgage rates will remain low enough to support investment in housing, but the dampening of demand should be sufficient to slow price increases in the coming year. As mortgage rates creep up over the coming year, we will see a return to more balanced growth in the housing sector, based on solid market fundamentals. ■



Update on Seniors Housing

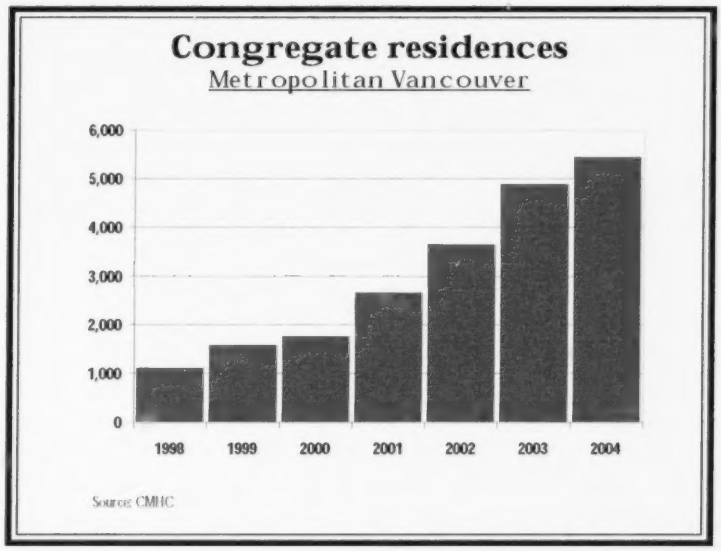
The number of seniors' congregate housing units (independent living units with housekeeping, laundry, and common meal services) recorded by the CMHC Seniors' Housing Market Survey in Metropolitan Vancouver, increased 12 per cent to 5,433 units in 2004. One-quarter of all congregate units are located in the City of Vancouver with high concentrations also found in Burnaby, White Rock, Surrey/Delta and the Tri-cities. These communities have large seniors populations, and when seniors move to congregate residences, they tend to want to remain in the same city.

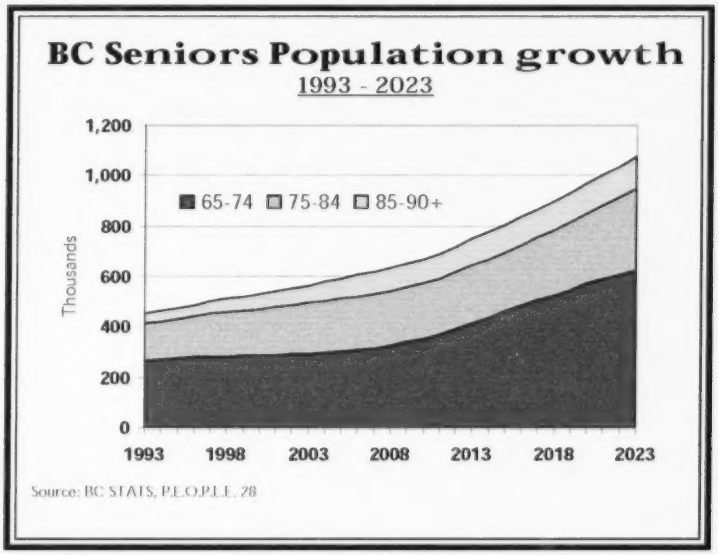
The number of seniors' congregate units in the Lower Mainland has increased by nearly 400 per cent since CMHC began the survey in 1998. This trend will continue, as the number of seniors over the age of 65 in the Metro Vancouver region is expected to increase almost 53 per cent by 2023 (BC Stats, P.E.O.P.L.E. 28). Congregate housing suits the needs of many seniors who are living longer, healthier lives, and prefer to remain independent as long as possible.

The total number of residential care beds recorded by CMHC in Metro Vancouver dipped marginally (less than 1 per cent) in 2004, to 14,617. This slight difference is due mainly to renovations and conversions in progress in care homes across the region.

Developers are responding to the diverse needs of seniors and providing more housing options for this burgeoning market. Indeed, across the Metro Vancouver region, there are currently more than 45 new seniors' housing projects under construction or under review for development approval. If all these projects were approved, they would add approximately 3,500 congregate units and residential care beds.

Publicly funded seniors' care and housing have seen big changes over the past year. Assisted Living units will be replacing Personal and Intermediate Care beds. The aim is to keep seniors in an independent living environment as long as possible. This will free up nursing homes for those who need higher levels of care. New care facilities are focusing more on a Complex Care model, which offers greater flexibility. The changes are intended to better match the type of care with resident needs. The roll out of new Assisted Living and Complex Care projects will continue through 2005. ■





Forecast Summary

	2002	2003	%CH	2004	%CH	2005	%CH
RESALE MARKET FORECASTS							
MLS - GREATER VANCOUVER							
Single Detached	16,784	17,216	2.6%	15,354	-11%	14,880	-3%
Townhouse	5,113	5,842	14.3%	5,916	1%	5,677	-4%
Apartment	11,967	15,101	26.2%	16,530	9%	16,643	1%
MLS - FRASER VALLEY							
Single Detached	9,288	10,231	10.2%	11,150	9%	10,600	-5%
Condo	4,577	5,538	21.0%	6,400	16%	6,300	-2%
MLS - TOTAL SALES	47,729	53,928	13.0%	55,350	3%	54,100	-2%
Single Detached	26,072	27,447	5.3%	26,504	-3%	25,480	-4%
Condo	21,657	26,481	22.3%	28,846	9%	28,620	-1%
AVERAGE MLS PRICE - GVA							
Single Detached	$393,953	$449,905	14.2%	$525,000	17%	$555,000	6%
Townhouse	$247,215	$270,414	9.4%	$310,000	15%	$325,000	5%
Apartment	$197,654	$216,169	9.4%	$248,000	15%	$260,000	5%
MLS - FRASER VALLEY							
Single Detached	$271,464	$301,690	11.1%	$352,000	17%	$370,000	5%
Condo	$154,636	$153,408	-0.8%	$174,000	13%	$180,000	3%
NEW HOUSING FORECASTS							
STARTS							
VANCOUVER CMA							
Total	13,197	15,626	18.4%	19,500	25%	20,000	3%
Single-Detached	4,980	5,382	8.1%	5,700	6%	5,800	2%
Multi-Family	8,217	10,244	24.7%	13,800	35%	14,200	3%
ABBOTSFORD CMA							
Total	1,038	1,056	1.7%	1,180	12%	1,225	4%
Single-Detached	558	634	13.6%	680	7%	710	4%
Multi-family	480	422	-12.1%	500	18%	530	6%
AVERAGE PRICE							
VANCOUVER CMA							
Single-Detached	$465,288	$499,778	7.4%	$548,000	10%	$575,000	5%
Townhouse	$253,021	$263,535	4.2%	$295,000	12%	$310,000	5%
Apartment	$303,669	$255,307	-15.9%	$308,000	21%	$325,000	6%
ABBOTSFORD CMA							
Single Detached	$275,044	$316,054	14.9%	$318,000	1%	$325,000	2%
Townhouse	NA	$234,939		$240,000	2%	$252,000	5%
Apartment	NA	$150,750		$135,000	-10%	$144,000	7 %

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